VZCZCXRO1718
RR RUEHMA RUEHPA
DE RUEHAR #2604/01 3631326
ZNR UUUUU ZZH
R 291326Z DEC 07
FM AMEMBASSY ACCRA
TO RUEHC/SECSTATE WASHDC 5922
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 03 ACCRA 002604

SIPDIS

SENSITIVE

SIPDIS

E.O. 12958: DECL: N/A
TAGS: ECON EINT EINV EMIN ENRG GH
SUBJECT: RESOURCE NATIONALISM IN GHANA

REF: STATE 150999

¶1. (SBU) Summary: Resource nationalism in Ghana has not been a major

concern for the extractive industries since the nationalization of mining interests in the 1970s. The policy was reversed in the 1980s under the Rawlings administration. Per the 1992 Constitution, mineral resources are the property of the State but development of those resources is not confined to government entities. Private, foreign firms dominate the natural resources sector and their participation is generally welcomed with open arms. To the extent that there is debate over the distribution of income derived from natural resource exploitation, it is primarily generated by local communities seeking their Qfair shareQ of profit from, or access to, extractive activities. However, there is no apparent organized pressure on the GoG to re-negotiate agreements with the extractive industries. End Summary.

OIL

¶2. (SBU) The Ghana National Petroleum Corporation (GNPC) oversees exploration and exploitation rights to Ghana's potential oil and gas resources. The Petroleum Exploration and Production law requires investors to provide GNPC a 10% stake in an operation at no cost. In addition, firms pay a negotiated royalty (generally between 4% and 7.5% depending on the level of risk) on gross income and a 35% income tax on profits. Ghana currently produces about 1,000 barrels per day through a joint venture between GNPC and Lushann Oil, a U.S. firm. A number of other U.S. firms have rights in offshore concessions.

¶3. (SBU) Kosmos Energy shares rights to two offshore blocks where commercial quantities of high-quality crude may have been found. Kosmos is in the process of setting up a local office and is extremely upbeat about the cooperation they have received from the GoG. QI have never seen a place that has wanted to do business so much,Q noted an executive from an oil exploration and production company that is currently soliciting the GoG for the rights to take the lead on developing the recent discovery. He described the Ghana National Petroleum Company as a Qgood organizationQ with whom his company has a cooperative relationship.

¶4. (SBU) As a participant in the Extractive Industries Transparency

Initiative (EITI), the GoG has expressed a commitment to develop its resources in a manner that widely benefits the country as well as investors. With regards to oil, the GoG is engaged at very senior levels in broad consultations with producers such as Norway and Canada, as well as development partners on sound management of revenues if/when they start flowing.

MINING

¶5. (U) In 2006, gold accounted for $1.2 billion worth of exports. According to the Chamber of Mines (an industry association funded by member mining companies) $781 million of that money was voluntarily repatriated into the country. In addition to gold there are manganese, bauxite, and other small-scale deposits being exploited.

Mining Agreements

¶6. (U) When the GoG launched its Economic Recovery Program (ERP) in

1983, it hoped to Qattract investment into exploration for new mining ventures and encourage expansion in existing mines. (UNCTAD report) The private sector has taken the lead in mining development while the Minerals Commission, a GoG agency established in 1992, has primary responsibility for the administration and regulation of the utilization of mining assets. Incentives offered to mining companies include accelerated capital depreciation along with generous customs and import duties exemptions for mining equipment.

¶7. (SBU) Per the Minerals and Mining Law, Section 43(1), the GoG shall receive a 10 percent stake in mining operations at no cost but a 2006 amendment appears to reduce the stringent intent of the earlier version of that requirement. Post is aware of one company that did not give GoG a 10% stake and an executive from that company explained that provisions of the Law can be Qconverted within the investment agreement.Q It is not clear whether there may have been some other concession offered to the GoG by the company.

¶8. (SBU) Under the Minerals and Mining Law of 2006 (Section 25),

royalties range between 3% and 6% and are determined by a profitability measure. In practice, one company reports paying 3% and states that other companies have similar agreements. A higher rate applies if the mining activity takes place in a forest reserve area. To operate in non-virgin forest reserves that have been subject to timber activities results in a royalty rate of 3.6%. Companies may also pay corporate taxes at standard rates.

¶9. (SBU) Ten percent of the royalties the government collects from mining are turned over to the district assemblies and traditional rulers of mining communities to implement development projects. The chief executive of The Chamber of Mines, among others, believes the percentage going to communities should be higher.
There does not appear to be any significant mainstream agitation for fundamental changes to the Minerals and Mining Law.

Mining Challenges

¶10. (SBU) Gold mining companies are benefiting from high gold prices but
are challenged by rising production costs, the energy crisis, and illegal mining by small-scale "galamsey" miners. Mining companies do not generally cite royalty or tax requirements as a problem for their businesses. For example, at a recent public meeting held by AngloGold Ashanti, the COO in charge of Africa Operations described threats to profitable operations in Ghana. Among the factors leading to a 7% third quarter increase to $357/oz. in gold production costs were wage increases, higher power tariffs and higher fuel/consumable/maintenance costs. Higher royalty payments accounted only for $2 of the total $24/oz. cost increase in the third quarter of 2007. This was a result of a 6% increase in production, not from a change in terms of royalty payments. The company did not express concern about possible changes in the terms of royalty payments.

¶11. (SBU) During the recent energy crisis, the GoG told mining companies
to reduce power consumption by 25%. According to a Newmont Mining representative, his companyQs options were to cease processing operations, since it was not technically feasible to continue on a reduced power schedule, or generate its own power. Newmont and the three other major gold mining companies collaborated to construct a $50 million, 80MW diesel-powered electricity generation plant in Tema. Per Newmont, the supplemental energy was six times more expensive than that which was supplied by the GoG.

Galamsey Mining

¶12. (SBU) Illegal small-scale mining, popularly referred to as galamsey,
is a major problem in the gold sector. Galamsey mining is carried out by those who encroach on the fringes of concessions or descend mine shafts with the assistance of family/friends/former co-workers who have access to the site. Aside from being illegal, galamsey mining threatens the safety of all miners because uncoordinated efforts can result in cave-ins. More directly, galamsey miners have attacked security personnel and police who interfere with their activities. Mining firms have also been known to react with force, which compounds the problem.
AngloGold Ashanti stated that continued galamsey mining activity could force the closure of at least one of its sites in Ghana.

¶13. (SBU) Newmont mining also has operations in Ghana that have been affected by galamsey mining. One executive described it as a Qbig concern.Q He believes the galamsey miners are organized by a Qwhole industryQ that provides credit for individuals to buy mining supplies in return for a specified quantity of gold. The illegal miners often operate with impunity; when an open-pit mine operator finishes blasting rock to gain access to ore, galamsey miners will rush in to process the rocks themselves. Should thEF VQ:n a right to engage in what they see as a traditional activity. Unresolved land tenure issues further complicate the situation. The establishment of the large

surface mines has forced the relocation of large numbers of people. Newmont's mine, for example, displaced 10,000. Even if those displaced are compensated and given new and perhaps improved housing, they do not necessarily accept that the land is no longer rightfully theirs. The mining companies are attempting to curb galamsey mining through both security measures and corporate social responsibility programs that are geared to improving the quality of life in mining communities. To date, these efforts have had little or no effect on reducing galamsey mining.

DIAMONDS

¶15. (SBU) Ghana Consolidated Diamonds Ltd. is the only example of a major
extractive industry that is state-owned. In this case, it is state-owned not because the GoG wants to retain ownership. The firm is in dire financial straits and diamond reserves are modest. No private buyer has been found since privatization efforts began in 1983, although Post understands there is currently one interested party.

Comment

¶16. (SBU) Ghana will hold presidential elections in December 2008.

President Kufuor is ineligible to run again. Regardless of which party wins the election, there will probably be a change in the board of the Ghana National Petroleum Company, including its managing director, as well as key Ministerial Posts.

However, major candidates show no evidence of being eager to make dramatic shifts in the current approach of seeking to attract foreign and domestic private participation in natural resource development in Ghana.

¶17. (SBU) Galvanization of local groups around environmental and social issues as they relate to extractive industries may in the future push the GoG to seek a larger share of profits from investors if royalties and corporate social responsibility activities do not show more tangible results.

BROWN